

Message Text

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ACTION EUR-12

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PARIS FOR USOECD

E.O. 11652: N/A
TAGS: EFIN, AU
SUBJECT: FOREIGN EXCHANGE RATE DEVELOPMENTS

REF: VIENNA 00044

1. ON FEB. 21, THE DOLLAR HIT A NEW RECORD LOW OF AS 14.665 ON THE VIENNA EXCHANGE. THE PREVIOUS LOW HAD BEEN REACHED JAN. 4, AND THE HIGHEST RATE BETWEEN THE TWO LOWS WAS AS 15.44 ON JAN. 9. SIMULTANEOUSLY, THE DM HAS MOVED UP, RISING STEADILY FROM AS 718.45 (PER DM 100) ON FEB. 17 TO AS 719.80 ON FEB. 22. OVER RECENT PERIOD SWISS FRANC ALSO HAS RISEN VIS-A-VIS THE SCHILLING (REACHING AS 805.8 ON FEB. 22), WHILE THE YEN HAS BEEN DROPPING SLOWLY.

2. IN RESPONSE TO JOURNALIST'S QUESTION AS TO HOW AUSTRIA WILL REACT TO THE LATEST DISTURBANCES ON
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INTERNATIONAL EXCHANGE MARKETS, FINANCE MINISTER ANDROSCH ADMITTED THAT NEW DOLLAR SLUMP CREATES DIFFICULT SITUATION FOR ALL COUNTRIES, INCLUDING AUSTRIA, BUT CONCLUDED THAT ADVANTAGES OF A HARD SCHILLING POLICY STILL OUTWEIGHED THE DISADVANTAGES. HIS REMARKS ALSO INDICATED THAT THE "HARD SCHILLING POLICY" AT PRESENT WAS BEING APPLIED MORE FLEXIBLY THAN EARLIER.

3. IN A SEPARATE CONVERSATION WITH REPORTERS, NEW NATIONAL BANK CHAIRMAN KOREN MAINTAINED THAT NO "DEFINITIVE STATEMENTS" COULD BE MADE ABOUT THE CURRENT SITUATION. HOWEVER, REFERRING TO THE RECOVERY OF THE DOLLAR FROM THE JANUARY LOW AFTER ENCOURAGING US POLICY STATEMENTS, KOREN EXPRESSED THE VIEW THAT THE LATEST LOW PROBABLY ALSO WOULD BE OVERCOME SOON. OVER THE LONGER RUN HE NOTED THAT THE VALUE OF THE DOLLAR WOULD DEPEND ON THE COURSE OF US ECONOMIC POLICY, NOTABLY ON IMPROVEMENT IN THE BALANCE OF PAYMENTS.

4. COMMENT. WHEN THE NEW, MORE FLEXIBLE HARD SCHILLING POLICY WAS FIRST OFFICIALLY INTIMATED IN DECEMBER, THIS WAS FOLLOWED BY HEAVY OUTFLOWS OF SCHILLINGS INTO DMARKS. HOWEVER, ON ONLY ONE OCCASION, IN EARLY JANUARY WHEN THE DOLLAR WAS NEAR ITS LOWEST, DID THE DM RISE ABOVE THE OLD INTERVENTION POINT. THE FOLLOWING DAY IT DROPPED BACK WITHIN THE OLD RANGE. NOW, AS THE DM AND SWISS FRANC MOVE UP AGAINST THE DOLLAR, THE EFFECTS OF THE MORE FLEXIBLE AUSTRIAN EXCHANGE RATE POLICY ARE BEING SEEN AND--AS HAS BEEN EXPECTED FOR SOME TIME--THE SCHILLING IS LAGGING BEHIND THESE UPWARD MOVEMENTS. WOLF
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